Economic View

April 2022

Focus

As the war in Ukraine entered its second month, the first economic consequences for the West are beginning to become apparent. Although the disruption to the economic order is dwarfed by the human tragedy in Ukraine, the war is also affecting European economies. For example, both consumer and business confidence decreased sharply in the Netherlands and Germany. The economic dependence of the countries in Europe is therefore high. In what specific areas is the Netherlands dependent on Russia and Ukraine? And is the impact already quantifiable?

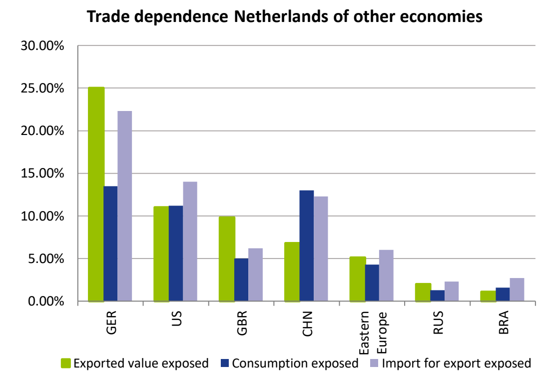
The Netherlands imported approximately EUR 2 billion of products from Ukraine in 2021. This mainly concerned vegetable oils and fats (e.g. sunflower oil), rapeseed and corn. The Netherlands imported EUR 18.4 billion from Russia in 2021, which is 3.5% of total Dutch imports. Almost 90% of these imports are either oil or gas. The impact of the war between Russia and Ukraine is felt largely through the two component of international trade: imports and exports. The increase in raw material and energy prices may increase production costs for companies. On the other hand, the additional disruptions in international trade may make exports more difficult for some companies. The impact in the Netherlands varies significantly by subsector:

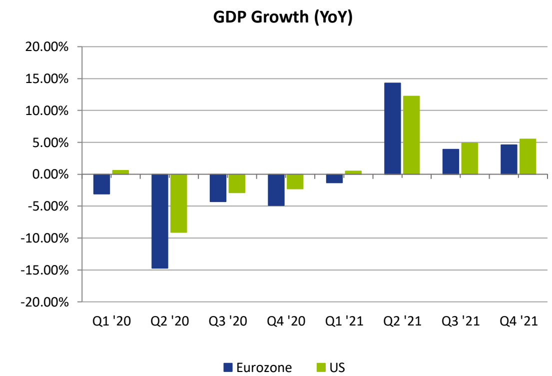
- The economic impact is most noticeable through energy prices. The upward movement of energy prices was initially driven by a spurt in demand after the COVID restrictions were eased. The additional geopolitical tensions and the military invasion of Ukraine lead to uncertainty of supply itself due to the sanctions of the West. The subsectors hardest hit are therefore the energy-intensive subsectors, such as greenhouse horticulture.
- The direct impact on the transport sector is limited. This is because little direct transport takes place between the Netherlands and Russia, and the Netherlands and Ukraine.
- In the construction sector, the cost of materials, mainly chips, wood and steel, is increasing rapidly. This price increase is caused by the uncertainty in supply. As a result, clients are postponing or even cancelling new projects. This led to the exptected growth in construction output dropping from 2.5% to 1.5% in 2022, according to ABN Amro's sector forecasts (March 31, 2022).

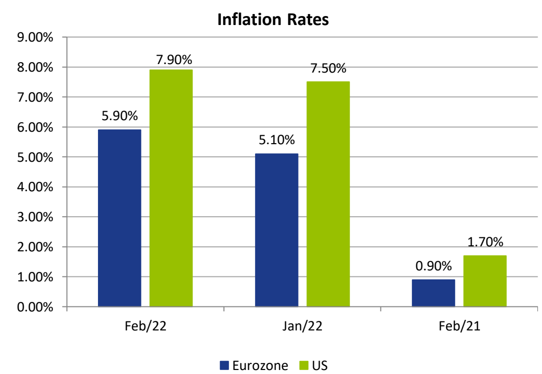
From various angles, attempts are being made to quantify the economic impact on the Dutch economy. For example, in an initial analysis (March 17, 2022) of the economic impact of the war in Ukraine, the Central Bank of the Netherlands reports that the average inflation in 2022 will be 9.5%. In February 2022, inflation in the Netherlands was 7.3%, of which 4.3 percentagepoints consisted of energy prices (CBS, 2022). ABN Amro also tries to identify the impact on the economy using three different scenarios, with the base case containing only a price shock (a temporary shock to commodity prices). The worse case scenario also has a supply shock and the final worst case scenario with a severe supply shock describes a situation of supply distortions on the commodity market.

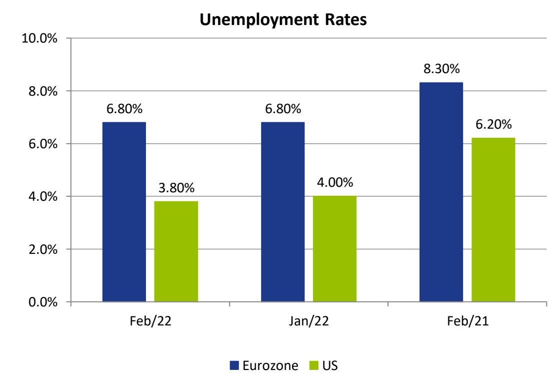
Based on the described impact of the military incursion, the Netherlands seems to be highly dependent in terms of trade on Russia and Ukraine. However, when we compare this tot eh Dutch dependence on other countries and regions worldwide, it seems limited (see figure). This is because the Dutch dependence on Russia is considerably lower than the dependence of large economies such as Germany and the United States. The Netherlands could possibly be hit harder by the consequences of the war in Ukraine if negative spill over effects occur from other Eastern European countries. There is also a clear distinction between the position that the Netherlands (along with the entire European Union) takes with regard to trade with Russia and Ukraine. The price increases of gas and oil are mainly caused by the harsh Western sanctions against Russia and the fear that the gas supplies could be disrupted. A ban on Russian oil imports is also being considered. This is in contrast to the attitude towards Ukraine, here the price increases of materials are mainly caused by disruptions in the supply chain and deliberate Western sanctions are not an issue.

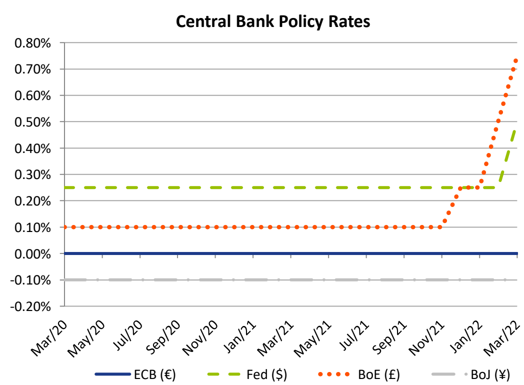
Although limited, the (in)direct economic dependence on both Russia and Ukraine currently hits the Dutch economy relatively hard. It remains uncertain for the time being what the long-term impact will be.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	CCC-	B3	B
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

According to Ukrainian Minister of Economy Yulia Svyrydenko, the war with Russia has already cost Ukraine USD 564.9 billion. This is the result of destroyed buildings and critical infrastructure such as roads and bridges, among other things. She further states that economic growth has already fallen by USD 112 billion and there has been a USD 134 billion reduction in investment in Ukrainian companies. The budget deficit has already increased to USD 48 billion due to the war. The minister emphasizes that the sums continue to rise daily.

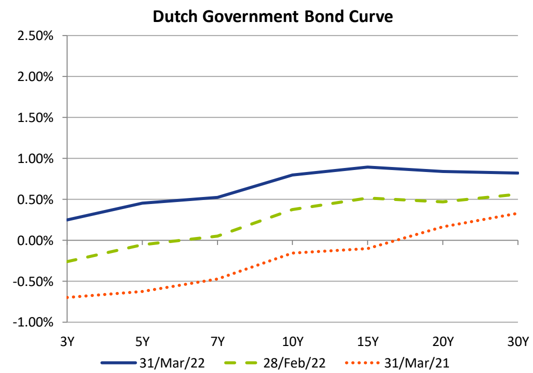
For the first time since 2018, the US Federal Reserve has raised its key interest rate, the Federal Funds Target Rate. The Fed is raising interest rates to a range of 0.25% to 0.50%. Policymakers expect to raise interest rates six more times this year, bringing the policy rate close to 2% by the end of 2022. In addition to the interest rate hikes, the Fed is also going to deleverage its balance sheet, which holds a large amount of bonds bought during the coronapandemic.

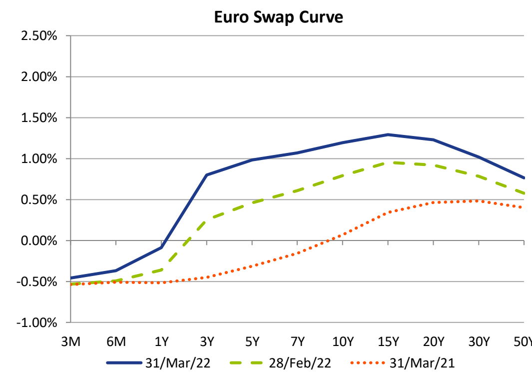
If, in addition to higher energy prices, the war in Ukraine also leads to a decline in world trade and a lower investment appetite, the Dutch economy could end up in a "short-term recession" this year. This was reported by the Bureau for Economic Policy Analysis on March 16. Inflation would then increase to almost 8%, which would reduce purchasing power by more than 5%. Excise tax cuts and compensation by the government are not included. In the gloomy scenario, the growth of world trade will be 2.5% this year, a sharp difference with the 6.6% in the basic estimate. Dutch exports take an even bigger hit: growth of 0.9%, instead of 4.9%.

The European Central Bank (ECB) will adjust its current monetary policy in the coming period and only raise interest rates gradually, sometime after the bond-buying program has ended. This was stated by ECB President Christine Lagarde on March 28. If inflation expectations remain as high as they are now, the bond-buying program will be stopped in the third quarter of this year. The ECB is therefore not expected to raise its policy rate until the end of this year or early 2023. The inflation forecast for 2022 for the EU was still 4.5% earlier this month, but rising energy prices will increase inflationary pressures. Rising food prices also have a push effect on inflation. Russia and Ukraine produce nearly 30% of world wheat exports, while Belarus and Russia produce about a third of the worlds' production of potash, a key ingredient for fertilizers.

Agenda

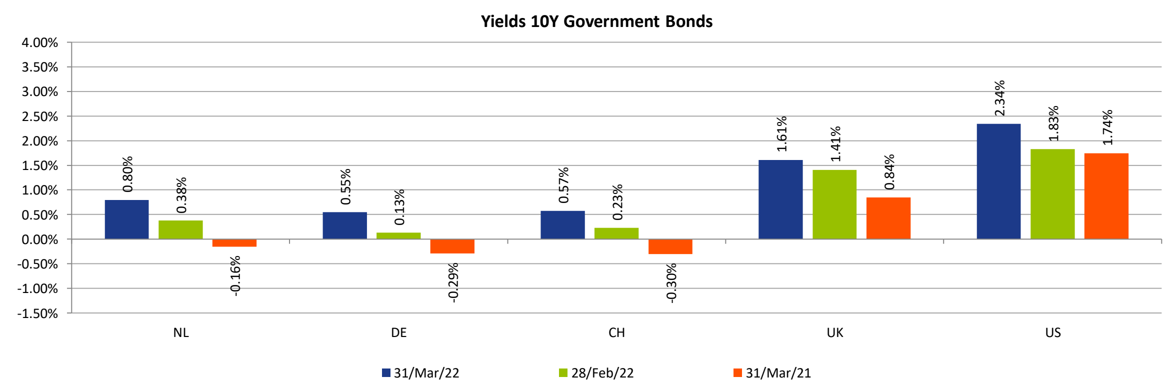
7 April	Inflation Netherlands
12 April	Inflation United States
13 April	Inflation United Kingdom
14 April	ECB Interest rate decision
28 April	Economic growth United States
29 April	Economic growth Euro area





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa2	A+
ING Bank	A+	A1	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	A-	A2	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	31/Mar/22	28/Feb/22	31/Mar/21
EUR/USD	1.107	1.122	1.173
EUR/GBP	0.842	0.836	0.851
EUR/CHF	1.021	1.029	1.107
EUR/JPY	134.665	129.015	129.860
EUR/DKK	7.438	7.437	7.438
EUR/SEK	10.399	10.627	10.241
EUR/CAD	1.384	1.422	1.474
EUR/AUD	1.479	1.545	1.544
EUR/CNY	7.017	7.078	7.687



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